



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: <http://legis.wisconsin.gov/lfb>

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TO: Members
Wisconsin Legislature

FROM: Bob Lang, Director

SUBJECT: Property Tax Estimates Under Governor's Budget Bill

This memorandum provides an estimate of the effects of Assembly Bill 64 and Senate Bill 30 (the Governor's 2017-19 biennial budget bill) on property taxes. The memorandum also updates the property tax estimates for the 2016(17) tax year based on preliminary reports filed with the Department of Revenue (DOR) by local governments.

For school districts, the Governor's budget bill (AB 64/SB 30) would increase funding for general school aids. Relative to 2016-17, funding would remain unchanged at \$4,600.9 million in 2017-18 and would increase in 2018-19 by \$72.8 million (1.6%) to \$4,673.7 million. In addition, the bill would maintain current law, where there would be no per pupil adjustment under revenue limits in the 2015-16 school year and each year thereafter. In addition, the bill would specify that school districts would not be able to adopt a resolution to utilize the revenue limit adjustment for energy efficiency measures under revenue limits after the effective date of the budget bill.

For municipalities and counties, AB 64/SB 30 would make one modification to the municipal and county levy limit program. Under the limit, initial levy increases for each municipality and county are based on the percentage change in each jurisdiction's tax base due to net new construction that occurred in the jurisdiction during the prior year. Exclusions and adjustments to the limit are allowed for amounts levied for certain enumerated purposes. Under one adjustment, if the debt service on general obligation debt issued before July 1, 2005, is less for the current year than for the previous year, the allowable levy is decreased by the amount of the debt service decrease. However, the decrease in levy authority is not imposed if the local government does not claim a separate adjustment based on its allowable levy from the prior year. The bill would repeal this provision that excuses the local government from taking the decrease due to a lower debt service level.

Technical college districts have been subject to a revenue limit since the 2014 tax levy.

Under the limit, each district cannot increase revenue in any year by a percentage greater than its valuation factor, defined as the percentage change in the district's equalized value due to net new construction in the district in the prior year. For purposes of the limit, revenue is defined as the sum of the district's tax levy and its property tax relief aid, which is the district's share of the \$406 million aid payment to technical college districts that was created by 2013 Wisconsin Act 145. The bill would not make changes to the property tax relief aid program or the revenue limits.

AB 64/SB 30 would make several changes to funding for school district categorical aid, county and municipal aid (shared revenue), general transportation aid for counties and municipalities, and state general aid for technical college districts. However, due to the way the local fiscal controls are structured, these funding changes are not estimated to have a measurable effect on the tax levies of school districts, counties, municipalities, or technical college districts.

AB 64/SB 30 would increase funding for the school levy tax credit. Beginning with the 2015(16) property tax year, the 2015-17 biennial budget act (2015 Wisconsin Act 55) increased funding for the credit to \$853.0 million from \$747.4 million, its funding level since the 2008(09) property tax year. After being at the \$853.0 million funding level for two years, the bill would increase funding by an additional \$87.0 million for both the 2017(18) and 2018(19) property tax years. Because the credit is paid in July, at the beginning of the state fiscal year, only \$87.0 million would be expended in the 2017-19 biennium.

AB 64/SB 30 would sunset the state forestry mill tax and require an amount to be transferred each year from the state's general fund to the conservation fund that is equal to the amount that would be raised under the state forestry mill tax. Currently, the tax is imposed at a rate of 0.1697 mills (0.01697%) on all taxable property in the state and is estimated to equal \$88.8 million in 2017-18 and \$91.7 million in 2018-19. As a result, the levy associated with the state forestry mill tax would be eliminated beginning in 2017(18).

Based on preliminary reports filed with DOR, gross property tax levies are estimated to total \$10,791.9 million on a statewide basis for 2016(17). This represents a 1.6% increase relative to the 2015(16) statewide total of \$10,620.2 million. After applying state tax credits, net property tax levies are estimated at \$9,606.6 million, an increase of 1.5% compared to the 2015(16) total of \$9,463.2 million. Under provisions in AB 64/SB 30, as proposed by the Governor, gross property tax levies would increase on a statewide basis by an estimated 0.8% in 2017(18) and 1.2% in 2018(19). Increases in net levies of 0.2% in 2017(18) and 1.3% in 2018(19) are estimated. The following table reports these amounts by type of taxing jurisdiction.

For the four-year period between the 2010(11) and 2013(14) tax levies, net new construction added less than 1% each year to statewide property values. Since then, increases of 1.1% in 2014, 1.2% in 2015, and 1.4% in 2016 have resulted, and increases of 1.5% for 2017 and 1.6% for 2018 are estimated. Due to adjustments and exclusions to state fiscal controls, the municipal and county levy limit and the technical college district revenue limit do not control the entire levies of those jurisdictions. On a statewide basis, increases of 2.1% for municipalities, 1.7% for counties, and 3.6% for technical college districts are estimated for 2017(18). Those rates of increase are estimated to accelerate slightly in 2018(19) to 2.4% for municipalities, 1.9% for

counties, and 3.8% for technical college districts. Gross school district property tax levies are estimated to increase by 0.9% in 2017(18) and decrease by 0.4% in 2018(19).

Property Tax Estimates Under AB 64/SB 30

	Final	Preliminary	Estimates	
		Estimates	Based on Provisions	
	<u>2015(16)</u>	<u>2016(17)</u>	<u>in the Governor's Budget</u>	
			<u>2017(18)</u>	<u>2018(19)</u>
Tax Levies (In Millions)				
Municipalities	\$2,668.3	\$2,749.7	\$2,807.2	\$2,875.0
Counties	2,086.5	2,131.7	2,168.4	2,209.0
School Districts	4,852.8	4,858.1	4,900.0	4,880.0
Technical College Districts	416.7	434.1	449.9	466.8
Tax Increment Districts	402.7	420.2	436.9	456.1
Special Purpose Districts	109.9	112.4	115.2	118.1
State Forestry	83.3	85.7	0.0	0.0
Gross Property Tax Levies	\$10,620.2	\$10,791.9	\$10,877.6	\$11,005.0
Change to Prior Year		171.7	85.7	127.4
Net Property Tax Levies	\$9,463.2	\$9,606.6	\$9,623.0	\$9,748.7
Change to Prior Year		143.4	16.4	125.7
Percent Change				
Municipalities		3.1%	2.1%	2.4%
Counties		2.2	1.7	1.9
School Districts		0.1	0.9	-0.4
Technical College Districts		4.2	3.6	3.8
Tax Increment Districts		4.3	4.0	4.4
Special Purpose Districts		2.3	2.5	2.5
State Forestry		2.9	-100.0	N.A.
Gross Property Tax Levies		1.6%	0.8%	1.2%
Net Property Tax Levies		1.5	0.2	1.3
Tax Bill Estimate				
Median-Valued Home*	\$152,719	\$155,657	\$159,393	\$162,581
Tax Bill Estimate	\$2,849	\$2,852	\$2,832	\$2,831
Change Over Prior Year				
- Amount		\$3	-\$20	-\$1
- Percent		0.1%	-0.7%	< -0.1%

* Based on the 2000 U.S. Census, adjusted for the annual change in residential property value due to economic factors.

Also, the table includes estimates of the impact of the various tax amounts on the median-valued home taxed at the statewide average tax rate. Home value estimates are based on the 2000 median home value for Wisconsin reported in the 2000 decennial census, adjusted to reflect the annual change in residential property values due to economic factors (appreciation or depreciation) as reported by DOR. Due to the 2008-09 national economic downturn and the related impact on the housing market, DOR reported negative economic adjustments to residential property values, on a statewide basis, from 2009 through 2013. During this period, the estimate of the median home value decreased from \$171,840 in 2008 to \$147,989 in 2013, a reduction of 13.9%. In 2014, DOR reported the first positive economic adjustment to residential property values, on a statewide basis, in six years (1.7%), resulting in a median home value estimated at \$150,505. Increases of 1.5% in 2015 and 1.9% in 2016 occurred, and the recovery of housing values is expected to continue for the next two years, as the estimated median home value is projected to increase by 2.4% in 2017 and 2.0% in 2018.

Modest increases are also projected for existing commercial and manufacturing properties in 2017 and 2018, and the level of new construction is estimated to also increase each year. In combination, these factors are expected to result in increases in statewide equalized values estimated at 3.5% in 2017 and 3.3% in 2018.

Since total values are expected to increase faster than the median home value, the estimated tax change on a median-valued home is less than the estimated rate of change in statewide tax levies. Under the preceding assumptions, statewide net levies are estimated to increase by 0.2% in 2017(18) and by 1.3% in 2018(19). In comparison, the estimated tax bill on a median-valued home is estimated to decrease by 0.7% in 2017(18) and by less than 0.1% in 2018(19). Tax bills are estimated at \$2,832 (-\$20) for 2017(18), and \$2,831 (-\$1) for 2018(19) under the provisions proposed by the Governor in the biennial budget bills.

The most significant factor leading to the overall change in the estimated tax bill for the median-valued home varies by year. The proposed increase in the school levy credit in 2017(18) and the proposed increase in general school aids in 2018(19) would result in estimated tax reductions on this home of about \$25 each year compared to base funding levels.

The figures in the table are estimates for the state as a whole. The tax impacts in individual municipalities would vary considerably from these figures.

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